New Israeli budget underscores growing social inequality

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The passing in December of the controversial 270 billion shekel ($60 billion) 2003 budget by the Knesset (parliament) is symptomatic of the social gulf that has opened up between rich and poor in Israel.

In its last session before the general election due January 28, parliament voted 53-23 in favour of the new budget with nine abstentions, mainly from the Labour Party.

In October the Labour Party, objecting to budget funding for Jewish settlements in the West Bank and Gaza Strip, pulled out of the coalition government. The new budget makes cuts to welfare, but maintains funding for Jewish settlements in the occupied Palestinian territories.

After the passage of the budget, Likud Prime Minister Ariel Sharon warned that support for it would be "the real test of national responsibility for politicians from all parties."

The Israeli economy is in the grip of the severest recession in half a century. The Central Bank of Israel claims that two factors have impaired the economy's ability to recover—the slowdown in global economic recovery in 2002, with the recovery concentrated in traditional sectors while Israel specialises in high-tech industries; and the Israeli-Palestinian conflict, which is further exacerbated by the possibility of a strike against Iraq.

During the 1990s Israel's economy experienced a significant boom, partly as a result of investment attracted by the Oslo Accord of 1993 setting up the Palestinian Authority, and fuelled by a vibrant high-tech computer industry. But in the wake of the global economic downturn, and particularly since the beginning of the second Palestinian *intifada*, Israel's economic and social infrastructure has begun to deteriorate. The main burden has fallen on the poorest and most vulnerable sections of society.

Poverty is increasing at an alarming rate. Last year 26.9 percent, or 530,000 Israeli children, officially fell below the poverty line and the figure is expected to rise to 605,000 for 2002. Israelis living below the poverty line now number 20 percent of the population. Arab citizens are the hardest hit.

The soup kitchen has become a fact of life for many. At the Hazon Yeshaya kosher kitchen, in Jerusalem's Orthodox Mekor Baruch neighbourhood, men and women, religious and secular, line up with plastic bags in the cold and the rain. They often stand at a rear entrance to avoid the embarrassment of being seen. Many are recently unemployed, existing on less than $500 a month and dependent on handouts. Demand for meals at the soup kitchen has risen by around 40 percent in the past two years, organisers say.

The official unemployment rate now exceeds 10 percent and is forecast to reach 12 percent in 2003. For the Palestinians, things are far worse. United Nations figures show that unemployment has reached between 50 and 70 percent, and people in Gaza live on less than $2 a day. The new budget will cut payments to the unemployed by up to 34 percent. In addition, low-income earners will lose up to 44 percent of their allowances.

A large number of those workers currently employed are also facing an uncertain future. As many as 240,000 workers are threatened with losing their jobs. Most belong to the service sector, the most important being tourism, which has witnessed a 44 percent decline in the number of visitors between April and September 2002.

A report on the latest socio-economic indicators in Israel was recently discussed in the Knesset. The discussion concluded that about 30 or 40 years ago

Israeli society was marked by greater social equality. But the past 20 years have seen a very large increase in gaps in economic income—"meaning income from work, capital and pensions". According to some critics, this has happened because Israel has invested remarkable sums of money in the Occupied Territories, in building settlements, constructing bypass roads, maintaining the security of the settlers, and giving them tax breaks. This expenditure came about at the expense of other productive sectors. Moreover, the situation in which the economy has found itself in the past two years precludes the renewal of growth. As a result, unemployment increased and with it inequality.

The deep spending cuts in the new budget were also made to persuade international credit agencies to maintain Israel's sovereign rating. While tax revenues have dropped, defence spending has grown, causing a projected 4 percent budget deficit for 2002. The budget deficit led the credit rating agency Standard and Poor's to lower Israel's credit rating from stable to negative last April.

The deficit in the budget continues to grow. The deviation of the deficit from the target in 2002 stemmed from the fall in tax receipts, resulting from a lower level of economic activity as well as from a significant increase in defence expenditure.

New data also indicates that foreign direct investment in Israel plummeted due to "continued political and security uncertainty." Investors' expectations of persistent recession have further exacerbated foreign income inflow to Israel. Foreign investment is expected to register less than $1 billion during 2002, compared to over $2 billion two years ago. Investment abroad by Israeli companies soared compared to last year's figures.

Future projections, if anything, paint an even bleaker picture. According to the Israeli ministry of finance, GDP will fall by nearly one percent in 2002. This will result in a drop in the per capita income of about $1,200, from $17,184 in 2001 to just $15,985 in the year 2002. The Bank of Israel estimates that GDP will decline by 1 percent for the third year running in 2003. The current account deficit will continue to grow. Israel is not expected to meet its budget deficit target this year of 3.9 percent of GDP or next year's 3 percent target.

Aware that the budget cuts will not be enough to bail out the economy, the government has made a request to the US for $10 billion in financial aid, including $4 billion in military assistance and $6 billion in loan guarantees. External funds, if guaranteed, will be allocated to cover current expenditure, thus forestalling the problem instead of eradicating it.

By pursuing a hugely expensive war of attrition against the Palestinians, Sharon has succeeded in exacerbating the difficulties of an already ailing economy, and is now placing the burden on the backs of impoverished Israelis.